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National Intelligence Daily Cable for Tuesday, 25 October 1977.

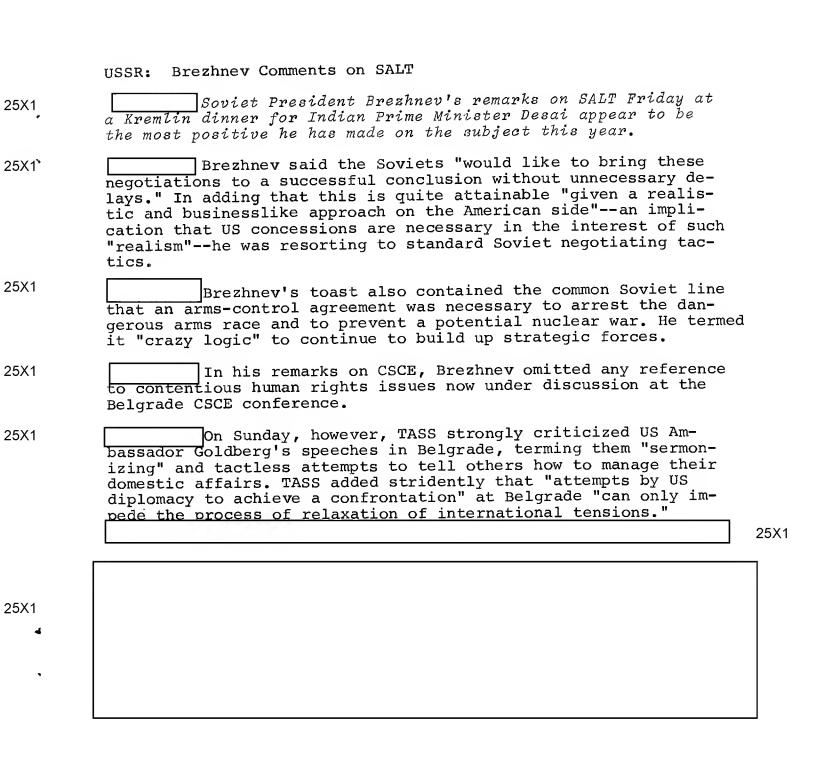
The NID Cable is for the purpose of informing senior US officials.

CONTENTS

USSR: Brezhnev Comments on SALT	Page	1	
			25X1
UK: Modest Economic Package	Page	3	
ZAMBIA: Economic Proposals	Page	4	
			25X1
CEMA: Possible \$800 Million Loan	Page	8	-
HUNGARY-USSR: Energy	Page	8	25X1
ITALY: Aggressive Arms Sales	Page	9	
NORTH KOREA: Financial Position	Page	12	
			25X1
BRIEFS:	Page	14	

Israel Panama Africa-UN

Approved Fdr Release 2007/03/15 : CIA-RDP79T00\$75A030400010018-4



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UK: Modest E	conomic Packag	e	

//British Chancellor of the Exchequer Healey will
announce a modest package of measures this week designed to
stimulate the economy. The proposals, mostly income tax cuts,
will probably amount to about \$1.4 billion. The Labor govern-
ment hopes the package, by increasing workers' take-home pay,
will encourage trade unions to moderate their pay claims through
the fall and winter months. Healey has publicly hinted that more
reflationary measures are in store for the regular budget in
the spring if wage settlements do not rekindle inflation.//
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//Healey's announcement is expected to come tomorrow when the House of Commons meets to close the present
parliamentary session. The new session will begin on 3 November
with the traditional speech from the throne outlining the
Callaghan government's objectives for the year to come.//

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25X1 //The Trades Union Congress has been pushing for an increase in public spending, but Healey favors tax cuts as the method having the most immediate impact on demand. The government may also opt to stimulate demand by granting a special \$17 Christmas bonus to old-age pensioners.//

//Since pay controls expired at the end of July, there has been no major breach of the government's unilaterally declared 10-percent pay guidelines. Neither has there been an occasion for a key union to challenge the guidelines. This respite will not last much longer. The government's position will be put to a test over the next several weeks as auto workers at Ford and the nationalized British Leyland firms react to management pay offers.//

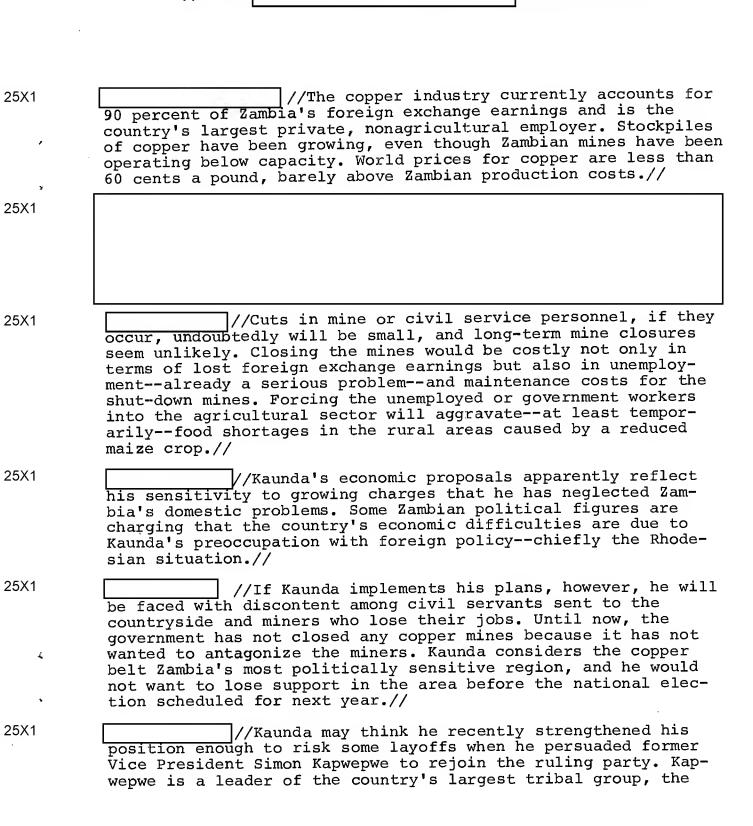
//The miners' union will probably pose the most difficult obstacle to wage restraint. The miners' demand for a 90-percent wage boost starting on 1 November is a violation not only of the government's guidelines but also of the Trades Union Congress' backing for a 12-month gap between pay settlements. The government's allies in the miners' union leadership, however, are trying to head off a confrontation by substituting for the huge pay demand a scheme that would tie wage rises to increases in productivity.

ZAMBIA: Economic Proposals

Zambian President Kaunda has announced new economic proposals designed to reduce dependence on copper earnings and attain agricultural self-sufficiency. Kaunda, who has made similar proposals before, is responding to criticism of past economic policy, but such a program could lead to further discontent.

Kaunda's specific proposals include a reduction in the number of civil servants, sending redundant government workers and the unemployed to the countryside, and asking small land holders to become self-sufficient in food production. A goal for agricultural exports has been set at 50 percent of total exports, up from a current level of about 8 percent.

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CEMA: Possible \$800 Million Loan

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V/The International Investment Bank, an agency of the Soviet-led Council for Mutual Economic Assistance, is negotiating an \$800-million syndicated loan to be managed by Chase Manhattan Bank. The ostensible purpose of the loan is to pay for hard-currency purchases for the Orenburg pipeline--a CEMA project to transport gas from the Orenburg gas field in the USSR to the Soviet-Czechoslovak border.//

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//The bank has already borrowed almost \$1.5 billion from the West to finance the East European countries' contribution to the pipeline project, thus bringing total funds borrowed for the pipeline to almost \$2.3 billion. If the loan is approved, it will be the largest ever granted to a Communist entity and the first time a US bank has led the consortium for a loan to CEMA. The large Western banks apparently continue to view borrowing by the International Investment Bank as an attractive and secure business despite the East's rapidly growing hard-currency debt.

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HUNGARY-USSR: Energy

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Soviet oil exports to Hungary probably will not increase between 1980 and 1990. A doubling of Soviet gas deliveries and a huge expansion of nuclear power production, however, will permit the energy-poor Hungarians to maintain their present 3.5- to 4-percent annual growth rate of energy consumption.

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During a recent lecture, the economist disclosed that the Hungarian Government estimates that oil consumption will increase during the decade ending in 1990 by only 90,000 barrels per day above the expected 1980 consumption of 270,000 barrels per day. Most, if not all, of the increase will probably come from the Middle East through the future Pan Adriatic pipeline. Imports from the Middle East, in fact, might increase by more than 90,000 barrels per day and Soviet deliveries might decline. Soviet oil exports to Hungary amounted to 170,000 barrels per day in 1976 and are scheduled to reach 180,000 to 200,000 barrels per day by 1980.

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25X1	The reduced growth in the use of oil during the 1980s will reverse the historical trend of a rapid increases in oil's share of Hungarian energy consumption. By 1990, oil will account for 38 percent of total energy consumption, down from a projected 42 percent in 1980.	
25X1 ³	apparently will increase from the planned 1980 level of 3.8 billion cubic meters (equivalent to 64,000 barrels per day of oil) to about 8 billion cubic meters (135,000 barrels per day) by 1990. The additional gas may be delivered through a pipeline that could be built adjacent to the Orenburg line.	25X
25X1	Nuclear power will climb from a negligible share of energy consumption in 1980 to 10 percent by 1990. Hungary plans to put its first nuclear reactor into operation in 1980 and to have an installed capacity of 4,400 megawatts by 1990, supplying 30 percent of electric power needs. A major expansion of nuclear power is necessary because of limited indiqeous reserves of oil, gas, and coal.	25X
	ITALY: Aggressive Arms Sales	
25X1	//Italy ranks fifth among non-Communist arms suppliers after the US, France, UK, and West Germany. The Italians have been aggressive arms exporters, and the effort has paid important dividends, including increased influence and good will in client countries, improved foreign exchange earnings, and more jobs. Exports help maintain a larger and more competitive defense industry than would be warranted by the limited demand from Italy's relatively small armed forces.//	
25X1 `	//Italian arms sales from 1972 through the middle of 1977 approached \$3 billion; about three-fourths of the total went to Latin America, the Middle East, and North Africa. After a sharp decline last year, sales rebounded in the first half of 1977, primarily because of a \$425-million helicopter sale to Iran.//	

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25X1 //Italian military exports include small arms, ammunition, and jet trainer aircraft. Italy also has become an important supplier of light warships. Sales of destroyer escorts to Peru and Venezuela and helicopters and aircraft equipment to Iran and Libya rank high among recent orders.// 25X1 //A large share of the exports consists of items produced in Italy under foreign license, especially from the US. Italian export policy is permissive, but foreign licensors sometimes refuse to approve Italian sales. Although the Italians have complained that US policy is too restrictive, they claim to adhere to US restrictions on transfers. Recent Italian efforts to export G-222 transport aircraft to Libya, for example, have been stalled by US refusal to permit transfer of the American-designed engines.// 25X1 //In the past, Italians have been willing to violate an embargo to gain a fast sale. Italian firms sold aircraft and electronic equipment to South Africa in 1963 and helped the South Africans establish their own aircraft industry.// 25X1 //Italy would resist proposals for international restraint on arms exports to Third World countries. Nevertheless, in the unlikely event that all other major Western arms suppliers agree to a program of international restraint, Italy probably would go along rather than risk isolation from its political and military allies. If the US were to reduce its arms exports unilaterally, the Italians would try to increase their market share as much as their high dependence on US technology, patents, and licenses would allow.// 25X1 Rome's attitude towards the arms industry is laissezfaire. Arms exports are not regulated by legislation, but rather by a special committee from the Defense, Foreign Trade, and Finance Ministries. The committee seldom refuses export requests. 25X1 //Italy has also shown flexibility in arranging payment. This year's big arms sale to Tehran is a barter deal under which Italian helicopters will be swapped for Iranian crude oil.// 25X1 //The government not only values the foreign ex-

change and employment generated by arms sales -- the arms industry

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employs roughly 150,000 workers--but also believes that the exports improve Italy's position with Third World countries, especially with key Middle Eastern and African oil producers. Most arms-producing firms belong to state holding companies and are among the few state-owned firms currently showing profits.//

//The Italian Communist Party is the main proponent of restrictions on arms exports. Because Prime Minister Andreotti's minority government stays in power by the grace of Communist abstentions in parliament, the Communists probably could force some curbs if they decided to do so. The party recently published a proposal on the arms export issue that included an outline of a new system for controlling export permits and a demand for halting arms sales to "racist and authoritarian" states, but they apparently do not intend to force the issue at this time. Chile and South Africa are the nations most often cited by the Communists as targets of arms embargoes.//

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NORTH KOREA: Financial Position North Korea has failed thus far to make the economic adjustments necessary to improve its international financial position. Despite the rescheduling early this year of most of

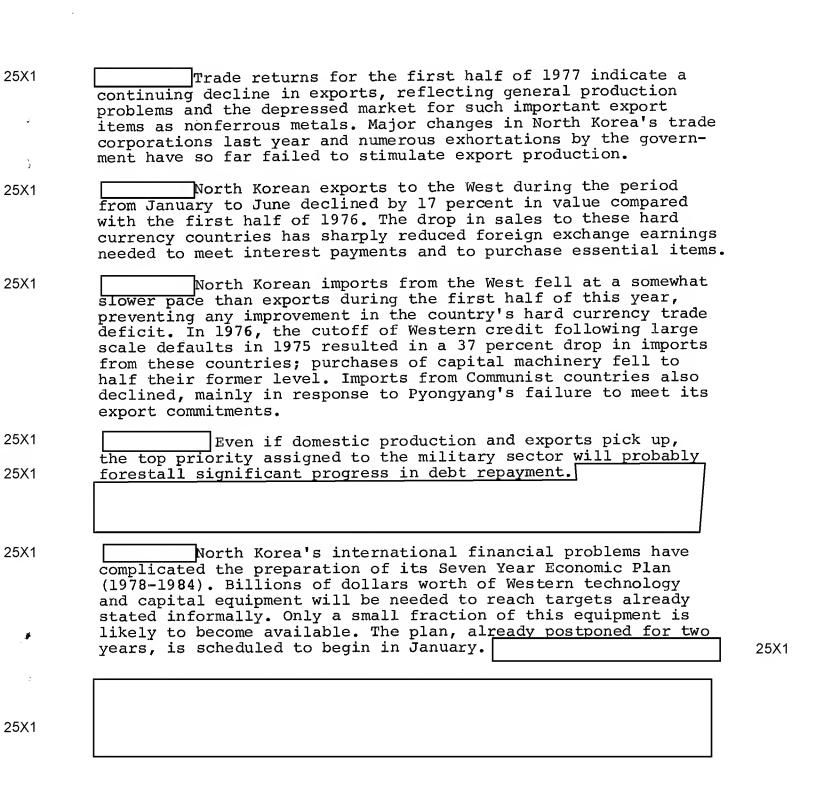
its \$1.4 billion external debt, Pyongyang has been unable to

meet the required interest payments. Large principal payments will again start coming due late next year. Confidence in North Korea's ability to pay is at an all-time low; even the optimistic Swedes have pulled out in the last stages of a major mining

project.

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13

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BRIEFS

Israel

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The Israeli parliament voted 62 to 34 yesterday to approve Yigael Yadin and three other members of the Democratic Movement for Change to Prime Minister Begin's cabinet. Yadin will serve as deputy prime minister, and his colleagues will head the Ministries of Justice, Transport and Communications, and Labor and Social Betterment.

Jerusalem Radio reported yesterday that Prime Minis-25X1 ter Begin, in a surprise move, has nominated two ministers without portfolio; one of them is from the Liberal faction of the Likud Party and the other from its Herut faction. The nominations are a move by Begin to counteract the shift of power in the cabinet accompanying the addition of the four members of the Democratic Movement for Change. 25X1 Panama The latest returns from Sunday's plebiscite indicate 25X1 that the Panama Canal treaties were approved by slightly more than a two-to-one margin. Final returns are to be announced Thursday. The plebiscite appears to have been conducted smoothly, and the yes vote is well above 50 percent in each of the 10 jurisdictions. 25X1 Africa-UN Nigeria yesterday won a two-year term on the UN Secu-25X1 rity Council after five ballots by members of the General Assembly. Such contests are seldom necessary, as each regional caucus group selects a single nominee for the rotating Security Council seat accorded it. For a West African seat available this year, however, Nigeria and Niger -- which, unlike Nigeria, has never held a Security Council seat--were locked in contest. 25X1 The much smaller Niger won the endorsement of the Organization of African Unity heads of state in July to replace the incumbent, Benin. Nigerian Head of State Obasanjo subsequently decided that his country's aspirations to leadership in Africa would be enhanced by Security Council membership, but he was unable to persuade Niger to withdraw its candidacy. Czechoslovakia, Bolivia, Gabon, and Kuwait were elected 25X1 routinely to the other regional Security Council seats for the 1978-79 term. They replace Romania, Panama, Pakistan, and Libya. A non-permanent member has no veto. 25X1

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